



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

May 29, 2008

The Honorable John Nelson, Chair
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair
Joint Legislative Audit Committee

Dear Representative Nelson and Senator Blendu:

Our Office has recently completed a 6-month followup of the Arizona School Facilities Board regarding the implementation status of the 27 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in August 2007 (Auditor General Report No. 07-06). As the attached grid indicates:

- 2 have been implemented;
- 7 are in the process of being implemented;
- 11 have not been implemented; one of which requires legislative action; and
- 7 recommendations are not yet applicable.

Our Office will continue to follow up at 6-month intervals with the Board on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm

Attachment

cc: John Arnold, Director
Arizona School Facilities Board

**ARIZONA SCHOOL FACILITIES BOARD
PERFORMANCE AUDIT AND SUNSET REVIEW
6-Month Follow-Up Report To
Auditor General Report No. 07-06**

FINDING 1: Future new school construction costs will place increasing demands on General Fund

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. To ensure its awards of monies to school districts in excess of the statutory funding formula amount are within the scope of its statutory authority, SFB should seek a formal opinion from the Attorney General to determine whether it has statutory authority to award additional monies to pay for specific design features.	Implemented at 6 Months	
2. Once the opinion is received, SFB should comply with the opinion.	Not Yet Applicable	On November 6, 2007, SFB requested a formal opinion from the Attorney General to determine whether it has statutory authority to award additional monies to pay for specific design features. SFB has not yet received the Attorney General's response.

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FINDING 2: Building renewal formula may need modification

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. The Legislature should consider modifying the school district building renewal funding formula to help districts better manage their building renewal monies.	Not Implemented	The Legislature has not considered any bills related to this recommendation.

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FINDING 3: SFB staff should improve oversight of districts' use of building renewal monies

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. SFB staff should continue their efforts to improve the oversight of building renewal expenditures by developing and implementing written policies and procedures that describe the review process for assessing the appropriateness of a district's building renewal expenditures.	Implementation in Process	SFB is developing written policies and procedures to assess the appropriateness of building renewal expenditures.
2. SFB should either require its liaisons to conduct annual reviews of building renewal expenditures or contract out for such reviews. In making the decision, SFB should consider the relative costs of both options.	Implementation in Process	Once written policies are in place, SFB plans to require its liaisons to conduct annual reviews of building renewal expenditures. According to SFB's Finance Director, SFB has started educating liaisons on what types of building renewal expenditures are appropriate. To help facilitate this review, in October 2007, SFB implemented a system that allows districts to submit building renewal expenditures through its Web Site.

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FINDING 3: SFB staff should improve oversight of districts' use of building renewal monies (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
3. SFB should provide districts an opportunity to challenge its staffs' conclusions regarding inappropriate expenditures.	Implementation in Process	During a May 2008 meeting, the Board approved policies that would allow districts to challenge liaisons' conclusions regarding inappropriate expenditures. The policies include notifying a district when liaisons identify inappropriate expenditures, allowing districts to correct identified expenditures, reporting unresolved expenditures to SFB's Board, allowing its Board to review the expenditures and conclude on their appropriateness, and SFB reporting inappropriate expenditures to the Superintendent of Public Instruction.
4. Once the process is in place giving districts the opportunity to challenge SFB staffs' conclusions, SFB should report inappropriate expenditures to the Superintendent of Public Instruction as required by law.	Not Yet Applicable	Implementation of this recommendation is contingent upon SFB determining that a building renewal expenditure is inappropriate.

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FINDING 4: Controls should be improved to ensure monies paid out appropriately

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. SFB should develop and implement written policies and procedures that cover:		
a. Payments to school districts, including all steps necessary to ensure the appropriate payment for projects; and	Implementation in Process	In February 2008, SFB drafted payment policies and procedures that include steps of how to input information into its project-tracking database, require liaisons to determine if expenditures are appropriate, and require districts to submit signed and notarized monthly billings. However, SFB has not yet finalized the policies and procedures.
b. Regular reconciliation of SFB information against the state-wide accounting system, the Arizona Financial Information System.	Not Implemented	During the audit, SFB staff performed an annual reconciliation of its fiscal year 2007 information against the General Accounting Office data and reported that all funds were accurate. However, SFB has not yet developed written policies and procedures that will cover regular reconciliations. According to the state accounting manual, this type of reconciliation should be completed on a monthly basis.

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FINDING 4: Controls should be improved to ensure monies paid out appropriately (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
2. Once written policies and procedures are developed, SFB should establish a formal training program for employees involved in the processing and disbursement of payments based on the established policies and procedures.	Not Yet Applicable	Implementation of this recommendation is contingent upon SFB developing and implementing written policies and procedures.
3. SFB should modify its close-out process to:		
a. Initiate the close-out procedure when the project award amount has been all or nearly all distributed instead of waiting to receive a close-out package from the school district; and	Implementation in Process	As of February 2008, SFB developed policies and procedures to close out projects that have received final inspection and have submitted required documentation. Also, according to SFB's Finance Director, SFB has developed programs that help proactively identify projects that should be closed. The programs are currently being tested.
b. Include a review to detect duplicate payments and recordkeeping errors.	Implementation in Process	According to SFB's Finance Director, SFB's project-tracking database was modified to include a close-out function that will help identify duplicate payments. As of February 25, 2008, SFB reported that it was testing this function.

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FINDING 5: Database controls need improvement

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. SFB should strengthen access to controls over its project-tracking database by:		
a. Using unique account identification numbers and passwords for each employee who uses the database;	Not Implemented	This recommendation has not been implemented. Because SFB uses a contractor to manage its database, all changes to it require payments to a contractor. According to SFB's Executive Director, SFB will take steps toward implementing the recommendation.
b. Restricting database access to only essential users and assigning rights using the rules of least privilege required to complete an employee's assigned task(s); and	Not Implemented	According to SFB's Executive Director, although additional resources are needed to implement this recommendation, SFB will take steps toward implementing the recommendation.
c. Establishing an automated edit check on the database that ensures a payment cannot be made in excess of the remaining budgetary capacity of a specific project.	Implemented at 6 Months	

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FINDING 5: Database controls need improvement (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
2. SFB should develop written policies and procedures for its IT system to address:		
a. Access controls;	Not Implemented	SFB has not developed policies and procedures related to access controls. In addition, according to SFB's Executive Director, because of limited resources, SFB's IT consultant has not been asked to develop procedures related to access controls.
b. Controls over making changes to the database system, including identifying user needs, identifying necessary changes, documenting changes made, and testing changes before implementation; and	Not Implemented	SFB has not developed policies and procedures related to controlling changes to the database system. However, according to SFB's Executive Director, SFB's IT contractor has been asked to document new database applications. The Executive Director stated that limited resources precluded requesting the IT consultant to make additional changes.
c. Work station management, including restrictions on downloading software from the Internet and requirements to regularly install security patch and virus protection.	Not Implemented	SFB has not developed policies and procedures regarding work station management. According to SFB's Executive Director, because of limited resources, SFB's IT contractor has not been asked to develop procedures related to work station management.

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FINDING 5: Database controls need improvement (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
3. Once written policies and procedures are developed, SFB should establish a formal training program that:		
a. Communicates SFB policies and procedures to its employees; and	Not Yet Applicable	Implementation of this recommendation is contingent upon SFB developing and implementing written policies and procedures.
b. Includes security awareness training to help ensure employees understand their role in protecting SFB data.	Not Yet Applicable	Implementation of this recommendation is contingent upon SFB developing and implementing written policies and procedures.
4. SFB should develop a comprehensive business continuity plan by:		
a. Updating and maintaining its plan;	Not Implemented	According to SFB's Finance Director, the recommendation has not yet been implemented.
b. Addressing weaknesses identified by the Business Continuity Leadership Task Force; and	Not Implemented	According to SFB's Finance Director, the recommendation has not yet been implemented.
c. Testing the plan at least annually.	Not Implemented	According to SFB's Finance Director, the recommendation has not yet been implemented.

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FINDING 5: Database controls need improvement (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
5. SFB should modify its IT consultant contract to:		
a. Require documentation of the database system, including such information as database structure, data dictionaries, and program code;	Implementation in Process	As of April 2008, SFB's IT contractor has begun to document new programs and certain components of SFB's database. According to SFB's Executive Director, SFB plans to modify its contract after the current contract expires. The contract expires in June 2008. However, according to SFB's Finance Director, SFB is requesting approval to extend the contract to December 2008
b. Establish state ownership of the project-tracking database; and	Not Yet Applicable	According to SFB's Executive Director, SFB plans to modify its contract after the current contract expires.
c. Require testing and SFB staff review of system changes.	Not Yet Applicable	According to SFB's Executive Director, SFB plans to modify its contract after the current contract expires.
6. To meet its IT needs, SFB should consider converting a vacant position to an IT position, using a consultant(s), or a combination of the two.	Not Implemented	According to SFB's Executive Director, because of resource constraints, SFB cannot fill its vacant positions.